

Representation

Draft Modification Report

0501 0501A 0501B 0501C – Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations

0501 – Treatment of existing Entry Capacity Rights at the Bacton ASEP

0501A – including capacity return option

0501B – including a restricted capacity return option

0501C – including a capped capacity return option and an aggregate overrun regime

Please note that if you wish your representation to be treated as strictly confidential please clearly mark it as such.

Consultation close out date: 12 February 2015

Respond to: enquiries@gasgovernance.co.uk

Organisation: British Gas Trading Limited

Representative: Graham Jack

Date of Representation: 11 February 2015

Do you support or oppose implementation?

0501 - Oppose

0501A - Support

0501B - Qualified Support

0501C - Neutral

If either 0501, 0501A, 0501B or 0501C were to be implemented, which would be your preference?

Prefer 0501A

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

As the proposer of 0501A we have developed a solution that best meets the needs of holders of capacity at the Bacton ASEP; it provides shippers with reasonable flexibility to adjust their capacity holdings in the light of the contractual changes being imposed on them. Proposal 0501B is less flexible but might provide a degree of mitigation should demand for capacity, at one of the new Bacton ASEPs, exceed the baseline level. Proposal 0501C is attractive in that it provides for the return of capacity to National Grid but not to the extent as that set out in proposal 0501A. Proposal 0501C is complex as it retains fungibility of current capacity holdings but not for any new capacity purchased in future. It may also be more costly and time-consuming to fully implement. Proposal 0501 does not address shippers' legitimate

concerns over the deleterious effect that the splitting of the Bacton ASEP will have on current capacity holdings.

Modification Panel Members have indicated that it would be particularly helpful if the following questions could be addressed in responses:

Q1: Do you agree Modification 0501C should be considered a User Pays Modification; if so do you agree with the proposed split for recovering costs?

No, we do not agree that 0501C should be considered as a User Pays Modification. The proposal is in response to external change requirements and attempts to retain some of the value and flexibility of the current Bacton entry capacity. The proposal to levy all (if any) User Pays costs on holders of capacity at Bacton following the reallocation exercise would further penalise the affected shippers – they will be left with an inferior product (compared with now) and have to make additional payments for its provision.

Q2: Do you have any specific views on the optionality to flow (as proposed by 0501C) following the proposed creation of the Bacton and IP ASEPs?

Retaining such optionality to flow via an aggregate overrun regime is consistent with the current usage of entry capacity at Bacton. From a commercial perspective this is reasonable, attractive and in tune with having efficient access to the network for flowing gas. From an operational perspective it is less attractive and would require bespoke operational controls to ensure full and efficient use of capacity.

Q3: 0501C proposes that shippers with Bacton UKCS Residual Capacity, and that need to buy Bacton IP bundled capacity in order to flow via an interconnector, should receive a rebate for the additional Bacton capacity that was purchased. What are your views on whether the shipper should offer one of the elements of the Bacton capacity back to the market in advance of the particular gas day in order to receive the rebate? Conversely, what are your views on providing a rebate if the shipper retains the optionality to flow via both routes (whether or not they actually choose to do so)?

In the event that a shipper has no option other than to buy bundled Bacton IP capacity (being unable to match some of its current unbundled Bacton capacity with an adjacent TSO's unbundled exit capacity) then it would be reasonable for a rebate to be made to the shipper. In retaining optionality to flow a shipper is attempting to retain some of the current flexibility it has when flowing gas into the NTS via Bacton and it should not be penalised for this. The important point is that shippers should not have to pay for capacity twice.

Q4: What do you think the impact will be on the TO entry commodity charge of the possibility to hand-back capacity in each of the alternatives 0501A, 0501B and 0501C?

This will depend on the extent to which capacity is returned to National Grid. It will also depend on new charging arrangements (e.g. floating capacity charges) that may arise from the eventual implementation of the European Tariff Code and Ofgem's Gas Transmission Charging Review.

It is equally valid to ask what the impact would be if proposal 0501 were implemented (where there is no capacity hand-back). In relation to proposal 0501 the implicit question changes from “should the implications of the Bacton ASEP split be partly shared by all Users?” to “should the implications of the Bacton ASEP split be targeted only on Bacton Users?”. In other words, should the implementation of CAM impact on all Users in a proportionate way or should Bacton ASEP Users bear a higher level of risk and cost which might be regarded as discriminatory?

Are there any new or additional issues that you believe should be recorded in the Modification Report (please specify by each modification)?

No.

Self Governance Statement

Do you agree with the Modification Panel’s decision that these modifications should not be self-governance modifications?

We agree that the proposals should not be classed as self-governance.

Relevant Objectives:

How would implementation of one of these modifications impact the relevant objectives (please specify by each modification)?

All four proposals would provide for compliance with the Regulation and would therefore be consistent with the furthering of relevant objective g).

0501

This proposal would only provide for the furthering of relevant objective g). It would have a negative impact on relevant objectives b) and d) since the current flexible access to Bacton entry capacity will be significantly eroded with the possibility, post reallocation to the new ASEPs, of capacity not being available where required and also sterilised because it is allocated where not required.

0501A

This proposal provides for a greater furthering of the relevant objectives of the Code. It would have a positive impact on relevant objectives b) and d) since it aims to provide shippers who have entry capacity at Bacton a reasonable opportunity to reset their capacity holdings in the face of external change. This proposal provides the best possibility for avoiding over-subscription and sterilisation of capacity at the two new ASEPs.

0501B

This proposal would also have a positive impact on relevant objectives b) and d). It would help to reduce sterilisation of capacity at one of the two new ASEPs but will not contribute to helping reduce the likelihood of an over-subscription because it requires the full reallocation of existing capacity holdings before there is any possibility of capacity hand-back.

0501C

This proposal also contributes to the furthering of relevant objectives b) and d). It would help to reduce sterilisation of capacity at one of the two new ASEPs but will only partially contribute to reducing the likelihood of an over-subscription, because it caps the opportunity for shippers to hand-back capacity to National Grid in the initial stage of the process. The additional complexity the proposal brings (requiring a distinction between residual and new capacity for the purposes of maintaining fungibility of the former) makes this proposal less attractive from a gas operations perspective but on balance the proposal would help to secure effective competition between shippers - (d) (i).

Impacts and Costs:

What analysis, development and ongoing costs would you face if one of these modifications were implemented (please specify by each modification)?

A major impact would be not obtaining reallocated quantities of capacity as requested at the new Bacton ASEPs. This could lead to gas being shut out of GB or competition for incremental capacity at the over-subscribed ASEP.

We will need to make updates to internal systems and processes to manage flows at two ASEPs instead of one.

Proposals 0501, 0501A and 0501B would be relatively simple to administer and implement with low expected cost. Proposal 0501C is a complicated proposal and could be relatively costly to implement as it would require more sophisticated internal processes to fully manage it.

Implementation:

What lead-time would you wish to see prior to one of these modifications being implemented, and why (please specify by each modification)?

We recommend the longest possible lead time for each proposal so long as this does not impede the implementation of European network codes.

Legal Text:

Are you satisfied that the legal text will deliver the intent of each of these modifications?

Yes.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise (please specify by each modification).

The Authority's decision on how to set the capacity baseline levels at the two new Bacton ASEPs will have an important bearing on how effectively each of the proposals will deliver an acceptable solution to shippers. If there is an over-subscription for capacity at one of the new ASEPs then this could artificially lock out gas to GB and have a negative impact on NBP liquidity and security of supply.

Splitting the Bacton ASEP is necessary for the implementation of the European Capacity Allocation Mechanisms code but it is a retrograde step and one that directly and negatively impacts on the value and flexibility of shippers' current entry capacity holdings. The current capacity holdings were purchased in good faith but now the product offering, access to the products (and, possibly price of the products) will be changed. It is important that shippers have a reasonable opportunity to respond to these changes, to re-evaluate and to re-determine the quantities of capacity they hold in the face of such changes.

We note that during the development of proposal 0501 Ofgem was asked to comment on the legality of simply reallocating current entry capacity entitlements to the two new ASEPs and ignoring the existing contractual rights of Bacton shippers. No comment was provided.